

**Town of Manchester**  
Manchester, Oklahoma

Audit Report  
June 30, 2013

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## **Independent Auditor's Report**

Honorable Board of Town Council  
Town of Manchester  
PO Box 5  
Manchester, Oklahoma 73758

### ***Report on the Financial Statements***

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Manchester, Oklahoma (Town) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audit in accordance with auditing standards generally accepted in the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate a basis for my audit opinion.

### ***Basis for Qualified Opinions***

As Discussed in Note 1 to the financial statements, the Town has not maintained complete asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for my review. In addition, the town has elected to not report depreciation on these capital assets. The Amount by which this departure would affect the assets, net assets, and expenses of the governmental and Business- Type Activates is not readily determinable.

### ***Qualified Opinions***

In my opinion, except for the effects of the matter described in the “Basis for Qualified Opinions” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business-type activities of the Town of Manchester, as of June 30, 2013, and the respective changed in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that budgetary comparison information on page 24 and the notes on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of the financial reporting for placing the basic financial statements in an appropriate, operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion, or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The Town has omitted Management’s discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Boards (GASB), who considers it an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

#### ***Other Information***

My audit was conducted for forming opinions on the financial statements that collectively comprise the Town’s basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, I have also issued my report dated July 24, 2014, on my consideration of the Town's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.

Linda S. Woodruff, CPA, PC  
Certified Public Accountant

Oklahoma City, OK  
July 24, 2014

Town of Manchester  
Manchester, Oklahoma

Basic Financial Statements  
June 30, 2013

Town of Manchester  
Statement of Net Position  
June 30, 2013

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash & Equivalents	\$ 57,616	\$ 59,200	\$ 116,816
Investments, at Cost	100,088	13,933	114,021
Receivables	-	3,127	3,127
Due from Other Funds	-	-	-
Prepaid Costs	-	-	-
Prepaid Costs	-	1,708	1,708
Capital Assets			
Land & Improvements Not Being Depreciated	-	-	-
Buildings, Net of Depreciation	-	-	-
Equipment & Furniture, Net of Depreciation	137,700	-	137,700
Other Capital Assets, Net of Depreciation	-	-	-
Total Capital Assets	<u>137,700</u>	<u>-</u>	<u>137,700</u>
Total Assets	<u>295,404</u>	<u>77,968</u>	<u>373,372</u>
<b>Deferred Outflow of Resources</b>			
<b>Total Deferred Outflows</b>			
Accounts Payable & Accrued Expenses	410	1,068	1,478
Due to Other Funds	-	-	-
Deferred Revenues	-	-	-
Long-Term Liabilities			
Due within One Year			
Bonds, Capital Leases, & Contracts	-	-	-
Accrued Interest	-	-	-
Compensated Absences	-	-	-
Due in more than One Year			
Bonds, Capital Leases, & Contracts	-	-	-
Accrued Interest	-	-	-
Compensated Absences	-	-	-
Claims & Judgments	-	-	-
Total Liabilities	<u>410</u>	<u>1,068</u>	<u>1,478</u>
<b>Deferred Outflow of Resources</b>			
<b>Total Deferred Outflows Position</b>			
Invested in Capital Assets, Net of Related Debt	-	-	-
Restricted for			
Capital Projects	-	-	-
Debt Service	-	-	-
Meter Deposits	-	11,153	11,153
Unrestricted	<u>294,994</u>	<u>65,747</u>	<u>360,741</u>
Total Net Position	<u>\$ 294,994</u>	<u>\$ 76,900</u>	<u>\$ 371,894</u>

The accompanying notes are an integral part of the basic financial statements.

Town of Manchester  
Statement of Activities and Changes in Net Assets  
for the Year Ended June 30, 2013

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
Governmental Activities							
General Government	\$ 10,663	\$ 15	\$ 8,057	\$ -	\$ (2,591)	\$ -	\$ (2,591)
Public Safety	3,942	-	-	-	(3,942)	-	(3,942)
Street & Alley	1,102	-	-	-	(1,102)	-	(1,102)
Health, Welfare, & Sanitation	-	-	-	-	-	-	-
Culture & Recreation	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-
Total Governmental Activities	<u>15,707</u>	<u>15</u>	<u>8,057</u>	<u>-</u>	<u>(7,635)</u>	<u>-</u>	<u>(7,635)</u>
<b>Business-Type Activities</b>							
Public Works Authority	52,653	85,273	-	-	-	32,617	32,617
Other Business-Type Activities	-	-	-	-	-	-	-
Total Business-Type Activities	<u>52,653</u>	<u>85,273</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,617</u>	<u>32,617</u>
Total Primary Government	<u>68,360</u>	<u>85,288</u>	<u>8,057</u>	<u>-</u>	<u>(7,635)</u>	<u>32,617</u>	<u>24,982</u>
<b>General Revenues</b>							
Taxes							
Franchise & Miscellaneous Taxes					4,552	-	4,552
Public Service Taxes					-	-	-
Grants & Contributions Not Restricted to Specific Programs					-	-	-
Unrestricted Investment Earnings					1,009	3	1,012
Miscellaneous					52,156	-	52,156
Transfers					-	-	-
Total General Revenues, Special Items, & Transfers					<u>57,717</u>	<u>3</u>	<u>57,720</u>
Change in Net Assets					<u>50,082</u>	<u>32,620</u>	<u>82,702</u>
Net Position - Beginning of Year					<u>244,912</u>	<u>44,280</u>	<u>289,192</u>
Net Position - Ending of Year					<u>\$ 294,994</u>	<u>\$ 76,909</u>	<u>\$ 371,894</u>

The accompanying notes are an integral part of the basic financial statements.



Town of Manchester  
Balance Sheet: Governmental Funds  
June 30, 2013

	<u>General Fund</u> <u>(Major)</u>	<u>Street &amp; Alley</u> <u>Fund</u> <u>(Non-Major)</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b>Assets</b>			
Cash & Cash Equivalents	\$ 57,616	\$ -	\$ 57,616
Investments	100,088	-	100,088
Taxes Receivable, net	-	-	-
Due from Other Funds	\$ 1,069.99	-	1,070
Receivable from Other Governments	-	-	-
Other Receivables	-	-	-
Inventories	-	-	-
Prepaid Expenses	-	-	-
Total Assets	<u>158,774</u>	<u>-</u>	<u>158,774</u>
<b>Liabilities</b>			
Accounts Payable		-	-
Due to Other Funds	\$ 410.30	-	410
Payable to Other Governments	-	-	-
Deferred Revenue	-	-	-
Other Accrued Expenses	-	-	-
Other Payables	-	-	-
Total Liabilities	<u>410</u>	<u>-</u>	<u>410</u>
<b>Fund Balances</b>			
Restricted for:			
Prepaid Expenses	-	-	-
Other Purposes	-	-	-
Com			
Assigned to:			
Unassigned	157,704		157,704
Unreserved, Reported in Non-Major			
Special Revenue Funds		-	-
Total Fund Balances	<u>157,704</u>	<u>-</u>	<u>157,704</u>
Total Liabilities & Fund Balances	<u>\$ 158,114</u>	<u>\$ -</u>	<u>\$ 158,114</u>

The accompanying notes are an integral part of the basic financial statements.

Town of Manchester  
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2013

Total Fund Balance, Governmental Funds	\$ 157,704
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Amounts reported for governmental activities in the Statement of Net Assets are different because

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	137,700
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Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	-
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Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable ), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	(410)
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Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 294,994</u>
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The accompanying notes are an integral part of the basic financial statements.

Town of Manchester  
Statement of Revenues, Expenditures and Changes in Fund Balances: Governmental Funds  
for the Year Ended June 30, 2013

	<b>General Fund (Major)</b>	<b>Street &amp; Alley Fund (Non-Major)</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Property Taxes	\$ -	\$ -	\$ -
Sales & Miscellaneous Taxes	3,690	862	4,552
Fees & Fines	-	-	-
Licenses & Permits	15	-	15
Intergovernmental	-	-	-
Charges for Services	-	-	-
Investment Earnings	1,009	-	1,009
Miscellaneous	52,156	-	52,156
<b>Total Revenues</b>	<u>56,870</u>	<u>862</u>	<u>57,732</u>
<b>Expenditures</b>			
<b>Current</b>			
General Government	7,050	-	7,050
Public Safety	3,942	-	3,942
Public Works	-	-	-
Health & Sanitation	-	-	-
Culture & Recreation	-	-	-
Education	-	-	-
Street & Alley	-	1,102	1,102
<b>Debt Service</b>			
Principal	-	-	-
Interest & Other Charges	-	-	-
<b>Capital Outlay</b>	140,243	-	140,243
<b>Total Expenditures</b>	<u>151,235</u>	<u>1,102</u>	<u>152,337</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(94,365)</u>	<u>(240)</u>	<u>(94,605)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from Long-Term Debt, Net	-	-	-
Proceeds from Capital Leases	-	-	-
Grant Revenue	8,057	-	8,057
Other Uses	-	-	-
Transfer In	(240)	-	(240)
Transfer Out	-	240	240
<b>Total Other Financing Sources &amp; Uses</b>	<u>7,817</u>	<u>240</u>	<u>8,057</u>
<b>Net change in fund balances</b>	<u>(86,548)</u>	<u>-</u>	<u>(86,548)</u>
<b>Fund Balance - Beginning of Year</b>	<u>244,252</u>	<u>-</u>	<u>244,252</u>
<b>Fund Balance - End of Year</b>	<u>\$ 157,704</u>	<u>\$ -</u>	<u>\$ 157,704</u>

The accompanying notes are an integral part of the basic financial statements.

Town of Manchester  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the  
Governmental Funds to the Statement of Activities  
for the Year Ended June 30, 2013

Net change in fund balances - total governmental funds: \$ (86,548)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays \$140,243 exceed depreciation \$3,613 in the current period.

136,630

Government funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report payment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term debt. This is the amount by which proceeds exceeded repayments.

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

-

Change in Net Assets of Governmental Activities

\$ 50,082

Town of Manchester  
Statement of Assets: Proprietary Funds  
June 30, 2013

	<b>Enterprise Funds</b>	
	<b>Public Works Authority</b>	<b>Total</b>
<b>Assets</b>		
Current Assets		
Cash & Cash Equivalents	\$ 59,200	\$ 59,200
Investments	13,933	13,933
Accounts Receivable, Net	3,127	3,127
Inventories	-	-
Prepaid Expenses	1,708	1,708
Total Current Assets	<u>77,968</u>	<u>77,968</u>
Non-Current Assets		
Capital Assets		
Land & Improvements	-	-
Infrastructure	-	-
Buildings	-	-
Equipment & Furniture	-	-
Less Accumulated Depreciation	-	-
Total Non-Current Assets	<u>-</u>	<u>-</u>
Total Assets	<u>77,968</u>	<u>77,968</u>
Deferred Outflows of the Resources:		
Total Deferred Outflows		
<b>Liabilities</b>		
Current Liabilities		
Accounts Payable	252	252
Salaries Payable	-	-
Other Accrued Expenses	816	816
Deferred Revenue	-	-
Compensated Absences	-	-
Capital Lease Obligation	-	-
Claims & Judgments	-	-
Total Current Liabilities	<u>1,068</u>	<u>1,068</u>
Non-Current Liabilities		
Compensated Absences	-	-
Capital Lease Obligation	-	-
Claims & Judgments	-	-
Bonds, Notes, & Loans Payable	-	-
Total Non-Current Liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,068</u>	<u>1,068</u>
Deferred Inflows of Resources:		
Total Deferred Inflows		
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	-	-
Restricted for Meter Deposits	11,153	11,153
Unrestricted	65,747	65,747
Total Net Position	<u>\$ 76,900</u>	<u>\$ 76,900</u>

The accompanying notes are an integral part of the basic financial statements.

Town of Manchester  
Statement of Revenues, Expenses and Changes in Fund Net Assets: Proprietary Funds  
for the Year Ended June 30, 2013

	<b>Enterprise Funds</b>	
	<b>Public Works</b>	
	<b>Authority</b>	<b>Total</b>
<b>Operating Revenues</b>		
Charges for Services	\$ 85,273	\$ 85,273
Miscellaneous	-	-
Total Operating Revenues	85,273	85,273
<b>Operating Expense</b>		
Personal Services	15,071	15,071
Contractual Services	-	-
Utilities	15,521	15,521
Repairs & Maintenance	5,036	5,036
Other Supplies & Expenses	13,439	13,439
Insurance	3,588	3,588
Depreciation	-	-
Total Operating Expenses	52,655	52,655
Operating Income (Loss)	32,618	32,618
<b>Non-Operating Revenues (Expenses)</b>		
Interest & Investment Revenue	3	3
Miscellaneous Revenue	-	-
Operating Grants & Contributions	-	-
Interest Expense	-	-
Miscellaneous Expenses	-	-
Total Non-Operating Revenue (Expenses)	3	3
Income (Loss) Before Contributions & Transfers	32,621	32,621
Capital Contributions	-	-
Transfers In	-	-
Transfers Out	-	-
Change in Net Position	32,621	32,621
Total Net Position - Beginning of Year	44,279	44,279
Total Net Position - End of Year	\$ 76,900	\$ 76,900

The accompanying notes are an integral part of the basic financial statements.

Town of Manchester  
Statement of Cash Flows  
Proprietary Funds  
for the Year Ended June 30, 2013

Business-Type Activities--Enterprise Fund	<b>Public Works Authority</b>
<b>Cash Flows from Operating Activities:</b>	
Cash Received from Customers & Service Users	\$ 88,970
Cash Payments for Goods & Services & Employees	(34,234)
<b>Net Cash Provided by Operating Activities</b>	<u>54,736</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Operating Transfers In/(Out) to Other Funds	
Prior Period Adjustment	(42,200)
<b>Net Cash Provided (Used) for Noncapital Financing Activities</b>	<u>(42,200)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Purchase of Fixed Assets	-
Grants	-
<b>Net Cash Provided (Used) for Capital and Related Financing Activities</b>	<u>-</u>
<b>Cash Flows from Investing Activities:</b>	
Interest Income	3
<b>Net Cash Provided by Investing Activities</b>	<u>3</u>
<b>Net Increase (Decrease) in Cash &amp; Cash Equivalents</b>	12,539
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>60,594</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 73,133</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income	\$ 32,618
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>	
Depreciation	-
Change in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	3,697
(Increase) Decrease in Prepaid Expense	19,792
(Increase) Decrease in Due From Other Funds	252
Increase (Decrease) in Accounts Payable	85
Increase (Decrease) in Accrued Expenses	-1,708
<b>Total Adjustments</b>	<u>22,118</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 54,736</u>

The accompanying notes are an integral part of the basic financial statements.

Town of Manchester  
Manchester, Oklahoma  
Notes to the Basic Financial Statements  
for the Year Ended June 30, 2013

**1. Summary of Significant Accounting Policies**

The Town of Manchester, Oklahoma (the Town) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town are discussed below.

**A. Reporting Entity**

The Town of Manchester, Oklahoma was organized under the statutes of the State of Oklahoma; The Town provides the following services as authorized by state statutes: general government, public safety (fire), streets, and a Public Works Authority for the geographical area organized as the Town of Manchester, Oklahoma. The Town operates under a council form of government and is governed by a town council.

As required by generally accepted accounting principles, these financial statements present the activities of the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations and so data from these units are combined with the data of the primary government. The Town provides the following services as authorized by its charter: general government, public safety (fire), streets, and public works (water, sewer, and refuse).

Blended Component Units:

The Manchester Public Works Authority (the Authority) was created to finance, operate, construct and administer any public works, improvements or facilities for the benefit of the Town of Manchester, Oklahoma. The Authority operates the water, sanitation, and sewer services for the Town of Manchester. The authority is exempt from State and Federal income taxes. The Authority is reported as an enterprise fund.

Blended Component Units/Trusts:

In evaluating how to define the Town of Manchester, Oklahoma, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity. The basic- but not the only- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities.



Town of Manchester  
Manchester, Oklahoma  
Notes to the Basic Financial Statements  
for the Year Ended June 30, 2013

**1. Summary of Significant Account Policies -- Continued**

**A. Reporting Entity—Continued**

**Blended Component Units/Trusts Continued:**

Component units may be presented as either a blended component unit or a discretely presented component unit. A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's funds are blended into those of the Town by appropriate fund type to constitute the primary government presentation. A discretely presented component unit is a separate legal entity that meets the component unit criteria but does not meet the criteria for blending.

The Town has no blending units.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting**

The Town's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

**Government-Wide Financial Statements** – The statement of net position and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities and for the business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Town.

**Fund Financial Statements** – During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category and is at least 5% of the corresponding element total for all governmental and enterprise funds combined or is a fund that the government believes is important enough for financial statement users to be reported as a major fund. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Town of Manchester  
Manchester, Oklahoma

Notes to the Basic Financial Statements  
for the Year Ended June 30, 2013

**1. Summary of Significant Accounting Policies – Continued**

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting – Continued**

**Fund Accounting** – The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds** – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims, and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales taxes collected and held by the state at year-end on behalf of the Town are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following is the Town's major governmental fund:

General Fund – is the general operating fund of the Town. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Other governmental funds of the Town that are considered non-major funds include:

Special Revenue Funds - account for revenue sources that are legally restricted to expenditures for specific purposes (not including capital projects). The following is the Town's Special Revenue Fund: Street and Alley.

**Proprietary Funds** – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the Town has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise funds.

Town of Manchester  
Manchester, Oklahoma

Notes to the Basic Financial Statements  
for the Year Ended June 30, 2013

**1. Summary of Significant Accounting Policies – Continued**

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting – Continued**

**Enterprise Funds** – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The Manchester Public Works Authority is accounted for as an enterprise fund. The following are the Town's major enterprise funds:

Manchester Public Works Authority – accounts for the operations of providing public works (water, sewer and sanitation) to the Town.

There are no enterprise funds of the Town that are considered a non-major funds.

**Fiduciary Funds**—account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds accounts for assets held by the government under the terms of a formal trust agreement. Agency funds are custodial in nature and do not present results of operations or have measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

The Town does not have a fiduciary fund.

**C. Assets, Liabilities and Equity**

**1. Deposits and Investments**

Oklahoma statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the Town can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

**2. Restricted Cash and Investments**

There are no restricted funds in the governmental funds.

Restricted cash and investments of the enterprise funds consists of customer meter deposits.

Town of Manchester  
Manchester, Oklahoma

Notes to the Basic Financial Statements  
for the Year Ended June 30, 2013

**1. Summary of Significant Accounting Policies – Continued**

**C. Assets, Liabilities and Equity—Continued**

**3. Fair Value of Financial Instruments**

The Town's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The Town's estimates of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**4. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**5. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

**6. Inventories**

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

**7. Capital Assets and Infrastructure**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town does not maintain a capitalization threshold. The Town's infrastructure consists of roads, bridges, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the Town.

Town of Manchester  
Manchester, Oklahoma

Notes to the Basic Financial Statements  
for the Year Ended June 30, 2013

**1. Summary of Significant Accounting Policies – Continued**

**C. Assets, Liabilities and Equity—Continued**

**8. Long-term Obligations**

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

**9. Net position/ fund Balance**

In the Government-wide statement, net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered nonspendable (i.e. fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and note receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are spendable (such as fund balance associated with cash, investments or receivables).

Amounts in the spendable fund balance category are further classified as restricted committed assigned or unassigned, as appropriate.

**Restricted** fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

**Committed** fund balance represents amount that are useable only for specific purposes by formal action of the governments highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The Town Ordinance is the highest level of decision-making authority of the Town.

Town of Manchester  
Manchester, Oklahoma

Notes to the Basic Financial Statements  
for the Year Ended June 30, 2013

**1. Summary of Significant Accounting Policies – Continued**

**C. Assets, Liabilities and Equity—Continued**

*Assigned* fund balances represent amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds other than the general fund, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

*Unassigned* fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

**10. Resource Use Policy**

It is in the Town's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the Town considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the Town's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the Town considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

**2. Detailed Notes Concerning the Funds**

**A. Deposits and Investments**

At June 30, 2013, the Town held deposits of approximately \$230,837 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

*Investment Credit Risk*

The Town does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Town of Manchester  
Manchester, Oklahoma

Notes to the Basic Financial Statements  
for the Year Ended June 30, 2013

**2. Detailed Notes Concerning the Funds—Continued**

**A. Deposits and Investments—Continued**

**Investment Credit Risk**

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and cred of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.

**B. Restricted Cash and Investments**

Other restricted cash includes \$11,144 in cash held for meter deposits.

**C. Uncollectible Accounts**

Accounts receivable in the financial statements are reflected net of allowances. The Town's estimates of uncollectible accounts receivable is based on a review of past due listing by management. At June 30, 2013, the estimated uncollectible amounts from utility customers was zero.

Town of Manchester  
Manchester, Oklahoma

Notes to the Basic Financial Statements  
for the Year Ended June 30, 2013

**3. Detailed Notes Concerning the Funds – Continued**

**E. Prepaid Expense**

At June 30, 2013, the Town had \$1,708 in prepaid insurance.

**F. Inter-fund Receivables and Payables**

At year-end, there were no inter-fund receivables or payables.

**G. Long-term Debt**

The Town had no debt at June 30, 2013.

**4. Other Information**

**A. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The Town purchases commercial insurance for protection against loss other than health, life, and workers compensation. Settled claims have not exceeded the commercial coverage during the past three fiscal years.

The Town provides workers' compensation through CompSource Oklahoma.

**B. Contingent Liabilities**

At times the Town is a defendant in legal actions arising from normal governmental activities. Although most of such actions are covered by insurance, certain actions might have some degree of exposure to the Town. The outcome of these lawsuits is not presently determinable, and it is not known if the resolution of these matters will have a material adverse effect on the financial condition of the Town. The Town's potential liability in the litigation is limited by the Governmental Tort Claims Act.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.



Town of Manchester  
Manchester, Oklahoma

Notes to the Basic Financial Statements  
for the Year Ended June 30, 2013

**4. Other Information – Continued**

**C. Employee Retirement Plans**

Firefighters' Pension Plan

All full-time or volunteer firefighters hired before age 45 are covered by a statewide cost-sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS). Under this plan the Town contributes \$60 for each volunteer fireman. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma Town, OK 73105-3414, or by calling 1-800-525-7461.

The required contribution from the Town for this plan was \$780 for 2013. The required contribution was fully contributed. At June 30, 2013, the system held no related-party investments of the Town or of its related entities.

Town of Manchester  
Manchester, Oklahoma

Required Supplemental Information  
June 30, 2013

Town of Manchester  
Budget & Actual (with Variance): General Fund  
June 30, 2013

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Sales & Miscellaneous Taxes	(5,800)	(5,800)	3,690	9,490
Fees & Fines	-	-	-	-
Licenses & Permits	-	-	15	15
Intergovernmental	-	-	-	-
Charges for Services	-	-	-	-
Investment Earnings	(2,600)	(2,600)	1,009	3,609
Miscellaneous	-	-	52,156	52,156
Total Revenues	(8,400)	(8,400)	56,870	65,270
<b>Expenditures</b>				
Current				
General Government	8,400	8,400	7,050	1,350
Public Safety	-	-	3,942	(3,942)
Public Works	-	-	-	-
Health & Sanitation	-	-	-	-
Culture & Recreation	-	-	-	-
Education	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest & Other Charges	-	-	-	-
Capital Outlay	-	-	140,243	(140,243)
Total Expenditures	8,400	8,400	151,235	(142,835)
Excess (Deficiency) of Revenues Over Expenditures	(16,800)	(16,800)	(94,365)	(77,565)
<b>Other Financing Sources (Uses)</b>				
Proceeds from Capital Leases	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Changes in Fund Balance	(16,800)	(16,800)	(94,365)	77,565
Fund Balances - Beginning of Year	-	-	244,252	(244,252)
Fund Balances - End of Year	\$ -	\$ -	\$ 157,704	\$ 157,704

The accompanying notes are an integral part of the required supplemental information.

Town Manchester  
Manchester, Oklahoma

Notes on Required Supplemental Information  
for the fiscal year ended June 30, 2013  
(Unaudited)

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise funds and internal service fund adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, Management submits a proposed operating budget for the fiscal year commencing July 1, to the Town Council (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the Town Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

Town of Manchester  
Manchester, Oklahoma

Other Information  
June 30, 2013

Town of Manchester  
Combining Balance Sheet  
Non-Major Governmental Funds  
June 30, 2013

	<u>Street &amp; Alley</u>	<u>Total Governmental Funds</u>
<b>Assets</b>		
Cash & Cash Equivalents	\$ -	\$ -
Investments	-	-
Taxes Receivable, Net	-	-
Due from Other Funds	-	-
Receivable from Other Governments	-	-
Other Receivables	-	-
Inventories	-	-
Prepaid Expenses	-	-
Total Assets	<u>-</u>	<u>-</u>
<b>Liabilities &amp; Fund Balances</b>		
<b>Liabilities</b>		
Accounts Payable	-	-
Due to Other Funds	-	-
Payable to Other Governments	-	-
Deferred Revenue	-	-
Other Accrued Expenses	-	-
Other Payables	-	-
Total Liabilities	<u>-</u>	<u>-</u>
<b>Fund Balances</b>		
Reserved for		
Inventories	-	-
Encumbrances	-	-
Prepaid Expenses	-	-
Debt Service	-	-
Other Purposes	-	-
Unreserved	-	-
Total Fund Balances	<u>-</u>	<u>-</u>
Total Liabilities & Fund Balances	<u>\$ -</u>	<u>\$ -</u>

Town of Manchester  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Non-Major Governmental Funds  
for the Year Ended June 30, 2013

	<u>Street &amp; Alley</u>	<u>Total-Other Governmental Funds</u>
<b>Revenues</b>		
Property Taxes	\$ -	\$ -
Sales & Miscellaneous Taxes	862	862
Fees & Fines	-	-
Licenses & Permits	-	-
Intergovernmental	-	-
Charges for Services	-	-
Investment Earnings	-	-
Miscellaneous	-	-
Total Revenues	<u>862</u>	<u>862</u>
<b>Expenditures</b>		
Current		
General Government	-	-
Public Safety	-	-
Highways & Roads	-	-
Health & Sanitation	-	-
Culture & Recreation	-	-
Education	-	-
Street Repair	1,102	1,102
Debt Service		-
Principal	-	-
Interest & Other Charges	-	-
Capital Outlay	-	-
Total Expenditures	<u>1,102</u>	<u>1,102</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(240)</u>	<u>(240)</u>
<b>Other Financing Sources (Uses)</b>		
Proceeds from Long-Term Debt, Net	-	-
Proceeds from Capital Leases	-	-
Other Sources	-	-
Other Uses	-	-
Transfers In	-	-
Transfers Out	240	240
Total Other Financing Sources (Uses)	<u>240</u>	<u>240</u>
Net Changes in Fund Balances	<u>- -</u>	<u>-</u>
Fund Balances - Beginning of Year	<u>-</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ -</u>	<u>\$ -</u>

Town of Manchester  
Manchester, Oklahoma

Schedule of Expenditures of Federal Awards  
for the Year Ended June 30, 2013

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Program or Award Amount</b>	<b>Revenue Collected</b>	<b>Total Expenditures</b>
None			
Matching Fund			
Grant from KanOkla Network		8,057.00	8,057.00

note A – Basis of Presentation

This schedule includes the federal grant activity of the Town of Manchester and is presented on the cash basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts present in, or used in the preparation of the basic financial statements.

note B – Presentation

This schedule is incomplete since the formal grant title and number has been omitted



Town of Manchester  
Manchester, Oklahoma

Report Required by  
*Government Auditing Standards*  
June 30, 2013

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Honorable Board of Town Council  
Town of Manchester  
PO Box 5  
Manchester, Oklahoma 73758

I have audited, in accordance with the auditing standards generally accepted by the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Manchester, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Manchester, Oklahoma's basic financial statements, and have issued my report thereon dated July 24, 2014. The report on governmental and business-type activities was qualified because of the lack of fixed asset records and failure to provide depreciation on those fixed assets. Additionally, the Town did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

***Internal Control Over Financial Reporting***

In planning and performing my audit of the financial statements, I considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did identify deficiencies in internal control that I consider to be material weaknesses as finding 2013-01 and 2013-04. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be significant deficiencies as finding 2013-02 and 2013-03.

***Compliance and other matters***

As part of obtaining reasonable assurance about whether the town's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Town's Response to Findings***

The Town's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, I express no opinion on it.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of my testing of internal control and compliances and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Linda S Woodruff CPA, PC

Oklahoma City, Oklahoma 73172-1578

July 24, 2014

Town of Manchester  
Manchester, Oklahoma

Schedule of Findings & Question Costs

2013-01 Internal Control

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual does not have control over several of the financial functions of the Town.

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the Town strive to implement more segregation of duties where possible and utilize compensating procedures where applicable.

Response: Management agrees with the recommendation, but economic cost could exceed the benefit.

2013-02 Internal Control

Condition: Fire department expenses for pension, fuel, and pagers are being paid through the general fund without revenue from sales tax being received.

Criteria: All revenue streams should flow through the Town's general fund to offset the expenses of the department.

Effect: Sales tax revenue and grant revenue are being received by using the Town as the applicant, but no reimbursement or transfers are made to pay for expenses of the department which results in a lack of accountability.

Recommendation: All activity, whether revenue or expense, should be recorded in the general fund of the Town. The fire department is part of the Town and must report to the Town Board.

Response: The Town concurs with the recommendation and will begin accounting for the fire department activity.

2013-03 Internal Control

Condition: Cash receipts and disbursements are recorded using QuickBooks and only the Public Works Authority bank account. The Town has accounts for the general fund, but are not utilizing on a regular basis.

Criteria: Separation of accounts allows easier categorization of revenue and expense.

Effect: Co-mingling of funds (general, street/alley, and public works) can create a misstatement of revenue and expense as well as financial statement distortion.

Recommendation: Maintain a separate account for general revenue and expense including fire, park, and town clerk expense. The Public Works account should be used for utility revenue and expense. Motor vehicle tax, gas excise tax, grants for street repairs, and expense for street maintenance should be recorded in the account earmarked as street and alley.

Response: The Town concurs and will use existing accounts or open new accounts for specific funds.

Criteria: The Town's management is responsible for internal controls over accounting and financial reporting. This responsibility include the design and implementation of controls over the fair and complete presentation of the Town's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the Town's accounting records. For trial balances to be both complete and accurate, the Town must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit, in other words, Town management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute. Assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The Town's trial balances for the year ended June 30, 2013, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP.

Cause: The Town's accounting and financial reporting structure lacks the necessary expertise relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to the audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balance.

Effect of Potential Effect: As a result of this condition, without reliance on its external auditors, the Town lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statement in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions in regard to the trial balance.

Recommendation: The Town should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the Town's annual financial statements. This could be achieved through recording prior and current year audit adjusting entries and using the class separation features in QuickBooks

Response: Management concurs with the recommendation. QuickBooks is being utilized to enter adjusting entries proposed by the auditor to reconcile records to current audit reports.

